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Message Text

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ACTION EB-08

INFO OCT-01 EA-07 ISO-00 FEA-01 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04 ITC-01
TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 /082 W
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R 240838Z FEB 77
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 9425

C O N F I D E N T I A L JAKARTA 2432

E.O. 11652: GDS
TAGS: ETRD, ID
SUBJECT: GOI PROTECTIONISM

REF : STATE 1667

1. PRINCIPAL IMF CONCERN WITH NEW GOI PROTECTIONIST MOVES IS THAT THE REQUIREMENTS MAY CONSTITUTE AN EXCHANGE RESTRICTION. IMF TEAM WHICH RECENTLY CONCLUDED ARTICLE 14 NEGOTIATIONS BROACHED THE SUBJECT WITH GOI AUTHORITIES, WHO INDICATED THEY HAD ANTICIPATED POSSIBLE COMPLAINTS FROM TRADING PARTNERS OR GATT, BUT NOT AN EXCHANGE PROBLEM WITH THE IMF. THE DECISION ON WHETHER OR NOT TO TAG THE GOI WITH AN EXCHANGE VIOLATION NOW RESTS WITH THE FUND'S LEGAL DEPARTMENT. ASKED TO COMMENT ABOUT WIDER IMPLICATIONS OF PROTECTIONIST MOVES, LOCAL IMF REP WOULD NOT GO BEYOND TERMING THEM UNFORTUNATE. HE SUGGESTED DEPARTMENT MAY WISH TO CONTACT MEMBERS OF THE IMF TEAM WHICH HAS NOW RETURNED TO WASHINGTON.

2. WORLD BANK REPRESENTATIVES DO NOT APPEAR AT THIS TIME TO BE PARTICULARLY EXERCISED BY THE NEW REGULATIONS.

3. FYI - ALTHOUGH WE BELIEVE THAT GOI EFFORTS TO RAISE
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IMPORT BARRIERS DESPITE ASEAN/MTN PRESSURE IN THE OPPOSIT DIRECTION BEAR CONTINUED WATCHING, WE HAVE LEARNED RECENTLY THAT THE PRACTICAL EFFECT OF THESE EFFORTS MAY NOT BE VERY GREAT. FOR EXAMPLE, RANKING KADIN (CHAMBER OF COMMERCE) OFFICIAL RECENTLY TOLD EMBOFF THAT TEXTILE IMPORTERS COULD ARRANGE IN ADVANCE THE IMPORTATION THROUGH DISTRIBUTORS IN SINGAPORE. WHEN PRELIMINARIES SUCH AS SPECIFICS OF ORDER

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AND EXPECTED DATE OF SHIPMENT ARE SETTLED, THE IMPORTER OPENS THE L/C AND MAKES THE ADVANCE PAYMENTS AND THEN TELEPHONES THE SINGAPORE DISTRIBUTOR TO AIR FREIGHT THE SHIPMENT AT ONCE. WITH EPEDITIOUS WORK AT CUSTOMS, THE KADIN MEN CLAIMED THE GOODS COULD BE IN THE HANDS OF THE IMPORTER WITHIN THREE TO FOUR DAYS OF THE TIME HE OPENED THE L/C, AND THE COST WOULD BE MARGINAL. ANOTHER METHOD, WITH POTENTIAL FOR ITEMS SUCH AS REBAR, WHICH ARE UNECONOMIC TO AIRFREIGHT, IS TO OPEN AN L/C WITH AN OFFSHORE BANK, THEN WAIT UNTIL THE IMPOT IS ABOUT TO BE LANDED IN INDONESIA BEFLROE OPENING AN L/C WITH A LOCAL BANK AND MAKING THE REQUIRED ADVANCE DEPOSITS.

4. COMMENT: NEITHER OF THESE METHODS OF IMPORTING GOODS SUPPOSEDLY RESERVED FOR DOMESTIC PRODUCTION IS THOUGHT TO BE ILLEGAL. IF IT PROVES TRUE THAT THE NEW REGULA-TIONS WILL LARGELY BE CIRCUMVENTED, THE QUESTION ARISES WHETHER THE GOI KNEW THAT THIS WOULD HAPPEN AND ENACTED THEM ONLY TO STILL DEMANDS BY LOCAL IMPORTERS FOR PROTECTION.
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